

The future of hedge funds and derivatives

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The committee adopted the own-initiative report by John PURVIS (EPP-ED, UK) on the future of hedge funds and derivatives. It began by pointing out that the term "hedge funds" covers a wide range of financial products, which might more appropriately be called "sophisticated alternative investment vehicles" (SAIVs). As many of these funds operate offshore and are not subject to EU regulation, the committee urged the Commission to introduce EU legislation in order to make lending by EU financial institutions to such offshore funds more transparent. MEPs stressed, however, that any EU-wide regulatory regime for SAIVs should be sufficiently "light-handed" so as not to negate their role as an alternative investment medium of choice or impede the freedom of investment managers to employ innovative techniques and instruments, take strong positions (including by the use of shorting, leverage and derivatives) and be remunerated relative to their importance, provided that their investment and operating methods are disclosed in appropriate terms to those who invest with them directly or indirectly. The committee therefore called for an appropriate regime to be developed for SAIVs which would help attract them to locate in the EU and provide the benefits of a common European passport by means of mutual recognition. It stressed that such a regime should concentrate especially on the distribution and sales methods employed, so as to avoid investment in them by persons for whom they are inappropriate. The report added that it was essential to provide individuals investing in SAIVs with a clear and simple risk description and warning to be acknowledged by them as representing their understanding of the risks involved. The committee stressed that derivatives were a completely different area and could not therefore be regulated in the same way as hedge funds. While useful, such financial instruments were also high risk and could increase volatility and threaten financial stability. The Commission should therefore pay particular attention to derivatives when drafting new or amended directives concerned with financial services and also at the implementing stage of the Lamfalussy process. Along with national and relevant international institutions, the Commission should also instigate a means of measuring and monitoring global exposure in derivatives and, in particular, the accumulated credit risk of credit derivatives. Lastly, the report called on the Commission to ensure that European derivatives exchanges should have fair and equal access to foreign market places and said that recent protectionist moves by US competitors were unacceptable.